

**City of Sebastopol
Basic Financial Statements
June 30, 2007**

CITY OF SEBASTOPOL, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2007
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS**



Terry E. Krieg, CPA

Certified Public Accountant

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Sebastopol
Sebastopol, California

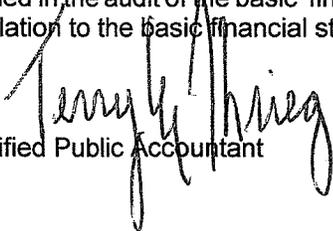
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastopol, California, (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Sebastopol's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastopol, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 11 and pages 39 through 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinions on the financial statements that collectively comprise the City of Sebastopol's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountant

February 6, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the *City of Sebastopol's* annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by about \$2.7 million over the course of this year's operations. The net assets of our business-type activities increased \$710,400 or nearly 12.3 percent), and there was a \$1,946,954 increase in the net assets of our governmental activities funds; an increase of about 31% over 2006 ending net asset balances.
- During the year, the City's expenses were \$4,632,295 more than revenues from user charges, operating and capital grants. This shortfall was funded from general tax revenues such as property taxes, sales taxes, incremental property taxes and other taxes.
- The general fund reported a 2007 year end fund balance of \$1,810,779. Of the \$1,810,779, the City has designated \$1,462,233 for future projects and financial funding purposes. The redevelopment project fund ended the year with a \$4,707,709 fund balance, and \$1,416,827 of that amount consists of the advance made to the Agency's low and moderate income housing fund to provide cash to purchase land.
- The overall increase in the net assets of our governmental activities type funds for fiscal year 2007 was about \$1.9 million. The city capital projects fund ended 2007 with \$1.2 million for capital projects and there was an additional \$1,356,738 in the City's non major funds.
- In our business-type activity funds, there was \$1.7 million in cash and investments set aside for capital improvements and an additional \$2.5 million in the wastewater fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – a *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents *combining statements* for non major governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and wastewater system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non major funds, each of which are added together and presented in single columns in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of City of Sebastopol's Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
<u>Scope</u>	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.	Activities the City operates similar to private businesses: the water and wastewater systems.
<u>Required financial statements</u>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows
<u>Accounting basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<u>Type of asset/liability information</u>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<u>Type of inflow/outflow information</u>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or *position*.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into two categories:

- *Governmental activities* – Most of the City's basic services are included here, such as the police, fire, public works, parks and community development departments and general administration. Property taxes, sales taxes, transient occupancy taxes, and state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and wastewater system are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law such as state gas funds and the low and moderate income housing fund of the Agency.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes, grants or fees such as police grants and impact fees.

The City has two kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them. The City reports its general fund and the Community Development Agency's Administration Fund as major governmental funds. All other governmental funds are aggregated together and reported in a separate column.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - The City reports its water enterprise and wastewater enterprise funds as major funds with the financial information for each of these funds reported in a separate column in the proprietary fund's financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITYAS A WHOLE

Net Assets. The City's *combined* net assets increased about \$2.7 million between fiscal years 2006 and 2007. (See Table A-1.)

Table A-1
City of Sebastopol's Net Assets
(in rounded dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$11,421,500	\$9,919,000	\$4,740,500	\$4,385,300	\$16,162,000	\$14,304,300	13.0%
Capital assets	6,692,300	6,528,100	3,728,100	3,709,400	10,420,400	10,237,500	1.8%
Total assets	18,113,800	16,447,100	8,468,600	8,094,700	26,582,400	24,541,800	8.3%
Long-term debt outstanding	8,613,700	9,182,600	1,870,000	2,218,200	10,483,700	11,400,800	-8.0%
Other liabilities	1,352,200	1,063,500	99,200	87,400	1,451,400	1,150,900	26.1%
Total liabilities	9,965,900	10,246,100	1,969,200	2,305,600	11,935,100	12,551,700	-4.9%
Net assets							
Invested in capital assets	(657,600)	(1,442,000)	3,635,500	3,191,200	2,977,900	1,749,000	41.6%
Restricted	7,752,500	6,324,000		35,500	7,752,500	6,359,500	21.9%
Unrestricted	1,053,000	1,319,000	2,863,900	2,562,400	3,916,900	3,881,400	.9%
Total net assets	\$8,147,900	\$6,201,000	\$6,499,400	\$5,789,100	\$14,647,300	\$11,989,900	22.2%

Net assets of the City's governmental activities increased about 31% percent or about \$ 2 million. About 97% of the net assets relating to governmental activities is represented the City's cash, investments, accounts and notes receivable. The City has about \$8.6 million in long-term debt being used to finance governmental operations; and of that amount \$6.8 million in debt relates to the City's Community Development Agency and related redevelopment activities.

Although the net assets of our business-type activities increased by 12 percent to \$ 6.49 million, these resources cannot be used for governmental activities. The City generally can only use these net assets to finance the continuing operations of the water and wastewater operations.

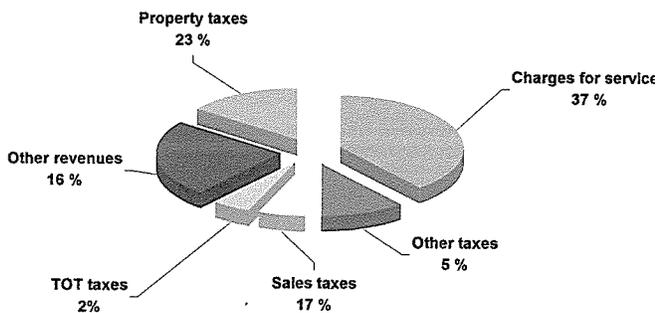
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

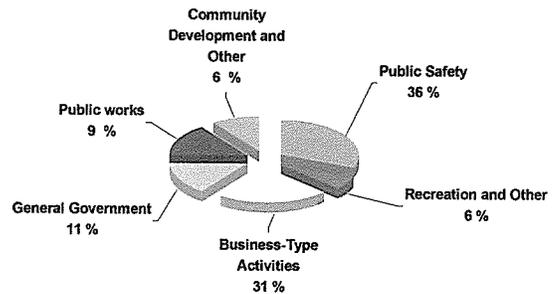
Changes in net assets. The City's total revenues decreased to about \$12.5 million (See Table A-2.) in 2007 compared to \$12.9 million in 2006. About 55 percent of the City's revenue comes from property taxes, transient occupancy, sales taxes, and other taxes. Another 45 percent comes from fees charged for services, and most of the rest is state and local aid.

The total cost of all programs and services increased approximately \$498,000 or about 5.4 percent to \$9.8 million. The City's expenses cover a range of services, with about 31 percent related to business type activities, 36 percent for public safety services, and the remaining 33 percent for general government, public works, parks and community programs.

Sources of Revenue for Fiscal Year 2007



Functional Expenses For Fiscal Year 2007



Governmental Activities

Revenues for the City's governmental activities decreased by a net \$228,000, while total expenses increased by \$588,000 over fiscal year 2006.

Governmental activities recorded greater grant revenues in fiscal 2006 than in fiscal 2007, and that is why there is a \$411,600 decrease in grants and contributions in fiscal 2007. This offset the \$443,600 increase in property tax revenues. There was also a \$409,100 decrease in charges for services related to lower impact related fees.

After all operations for 2007 were completed, the net assets of our governmental activities increased by about a net \$1.94 million. This 2007 increase was about 28% less than the increase in fiscal year 2006. This 2007 operating decrease resulted from the City maintaining fiscal control over spending patterns and lower grant revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Table A-2
Changes in City of Sebastopol's Net Assets
(in rounded of dollars)**

	Governmental Activities		Business Type Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues							
Program revenues							
Charges for services	\$832,400	\$1,241,500	\$3,337,400	\$3,146,900	\$4,169,800	\$4,388,400	-4.9%
Grants and contributions	819,200	1,230,800	178,900	533,000	998,100	1,763,800	-43.4%
General revenues							
Property taxes	2,955,000	2,511,400	229,600	279,800	3,184,600	2,791,200	14.1%
Other taxes	3,685,400	3,668,200			3,685,400	3,668,200	-0.5%
Other	419,600	287,700			419,600	287,700	45.8%
Total revenues	8,711,600	8,939,600	3,745,900	3,959,700	12,457,500	12,899,300	-3.4%
Expenses							
General government	1,060,500	1,014,000			1,060,500	1,014,000	4.6%
Public safety	3,507,800	3,321,400			3,507,800	3,321,400	5.6%
Community development	552,700	344,600			552,700	344,600	60.3%
Public works	837,000	743,600			837,000	743,600	12.6%
Parks and recreation	374,400	353,500			374,400	353,500	5.9%
Water			1,089,300	1,053,800	1,089,300	1,053,800	3.4%
Wastewater			1,946,200	2,072,000	1,946,200	2,072,000	-6.1%
Interest	432,200	399,400			432,200	399,400	8.2%
Total expenses	6,764,600	6,176,500	3,035,500	3,125,800	9,800,100	9,302,300	5.4%
Increase in Net assets	\$1,947,000	\$2,763,100	\$710,400	\$833,900	\$2,657,400	\$3,597,000	-26.1%

Table A-3 presents the cost of each of the City's largest governmental programs – administration or general government, safety, community development, and public works.

- The cost of all *governmental* activities this year was \$6.76 million, about \$588,100 greater than the total cost as reported in fiscal year 2006. About 83 percent of the cost increases in fiscal 2007 were \$186,400 in public safety, \$93,400 in public works, and \$208,100 in community development.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- Of the \$6.76 million cost of the City's governmental activities programs, our taxpayers paid for \$5.11 million of the program costs. Some of the cost was paid by:
 - Those who directly benefited from the programs; \$832,395 or
 - Other governments and organizations that subsidized certain programs with grants and contributions; \$819,161
- The City paid for the \$5.11 million "public benefit" portion by using about 72% of the City's general tax revenues.

Table A-3
Cost of City Sebastopol's Governmental Activities
(in rounded of dollars)

	<u>Total Cost of Services</u>		<u>Percentage</u>
	<u>2007</u>	<u>2006</u>	<u>Change</u>
General Government	\$1,060,500	\$1,014,000	4.6%
Public Safety	3,507,800	3,321,400	5.6%
Community development	552,700	344,600	60.3%
Public Works	837,000	743,600	12.6%
Parks and recreation	374,400	353,500	5.9%
All other	432,200	399,400	8.2%
Total	<u>\$6,764,600</u>	<u>\$6,176,500</u>	<u>9.5%</u>

The most significant cost increase in fiscal 2007 in terms of dollars was in community development as the City increased spending in this area. General government costs increases also related to higher employer pension contributions to the PERS.

Business-type Activities

Revenues of the City's business-type increased by about \$214,000 as a result of one-time type revenues such as contributions, capital connection fees and settlements. Expenses decreased about \$90,000 to about \$3.04 million as a result of increased operating efficiencies such as variable speed drives installed in municipal water pumps to save on energy costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$9.10 million, about a \$223,000 increase over the last fiscal year. This was a much smaller increase than last year as monies were expended in 2007 for development of affordable housing..

The City's spending for general fund operations was about \$182,000 more than general fund revenues. The general fund ended fiscal 2007 with a fund balance of about \$1.81 million. Of that fund balance, about \$1.46 million is designated for anticipated future financial needs and for emergencies that might arise in compliance with the financial management policy adopted by the City Council.

There was an additional \$4.70 million fund balance at year end in the Redevelopment Agency's Administration fund. Of that amount, about \$500,000 is set aside as debt service funds , and an additional \$1.4 million is *not available because* of cash advanced to the low and moderate income housing fund to help finance the purchase of land for affordable housing projects. The Agency intends that the cash advance will be repaid over the next several years from the 20 percent of tax increment revenues to be set aside in the low and moderate fund.

The City's non major special revenue funds ended the fiscal 2007 year with a combined fund balance of about \$1.35 million. The City's capital projects fund had an additional \$1.23 million available for future projects.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories:

- Changes made at the midyear budget review for unanticipated revenues and costs.
- Increases in appropriations to prevent budget overruns.

Even with these adjustments, actual expenditures and transfers out were \$258,905 more than final budget amounts. These excess expenditures, primarily for street purposes, were funded from available general fund resources. General fund revenues were about \$33,394 less than the final budget as a result of less than anticipated revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the City had invested \$10.4 million in a broad range of capital assets, including equipment, vehicles, streets, buildings, park facilities, and water and wastewater systems. (See Table A-4.) This amount represents a net increase (including additions and deductions) of about \$200,000, or 2 percent, over last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Table A-4
City of Sebastopol's Capital Assets
(net of depreciation, in millions of dollars)**

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 2.9	\$ 2.9	\$.1	\$.1	\$ 3.0	\$ 3.0	0.0%
Buildings	5.5	5.3	-	-	5.5	5.3	3.8%
Machinery and equipment	1.2	1.1	.4	.4	1.6	1.5	6.7%
Vehicles	2.2	2.1	-	-	2.2	2.1	4.8%
Infrastructure and systems	.8	.8	7.5	7.2	8.3	8.0	3.4%
Accumulated depreciation	(5.9)	(5.7)	(4.3)	(4.0)	(10.2)	(9.7)	5.2%
Total	\$ 6.7	\$ 6.5	\$ 3.7	\$ 3.7	\$ 10.4	\$ 10.2	2%

This year's major capital assets additions included:

- ADA improvements and a new HVAC system for a total of \$230,000
- About \$228,000 for playground improvements and replacement vehicles

Additional information about capital assets can be found starting on page 29 of the notes to the basic financial statements.

Long-term Debt

The long-term debt obligations of the City on an overall basis decreased by about a net \$1 million in fiscal year 2007. The City's most significant long-term debt obligation is the Development Agency's \$ 4.6 million in tax allocation bonds and \$2.15 million refunding lease arrangement. The Agency has pledged its tax increment revenues as security for the payment of principal and interest on the tax allocation notes. In fiscal year 2007, the City started paying interest on the \$2.9 million in funds borrowed in fiscal 2006 for future capital projects. The general fund will be responsible for paying debt service on the governmental activities portion of the lease obligation which is about 41% of the total obligation.

Additional information about the City's long-term obligations can be found starting on page 31 of the notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2008 fiscal year, general fund revenue projections have been conservative compared to higher revenue projections in the past years.

- The budget projects that there will be about a 0.5 percent decrease in general fund revenues
- The budget is balanced without using general fund resources available in unallocated reserves.
- A small increase in utility user fee rates are proposed for fiscal 2008, based on a user fee study
- No tax increases are proposed for fiscal 2008
- Selected general fund user fee increases are proposed for fiscal 2008

General fund 2008 budgeted appropriations are set at \$ 5.4 million This is about a 6.7 percent increase over fiscal 2007 actual general fund expenditures.

The 2008 budget has proposed capital project spending of about \$421,000 with \$100,000 for street related projects.

As to the City's business-type activities, about \$3.5 million is expected to be spent in 2008 to conduct operations and make capital improvements. In this regard the City expects to:

- Increase water and wastewater rates by a small percentage
- Pay for operating costs from charges for services to system users

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Sebastopol, 7120 Bodega Avenue, Sebastopol, CA 95472.

CITY OF SEBASTOPOL
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,097,959	\$ 2,501,965	\$ 10,599,924
Net receivables	399,095	461,144	860,239
Total current assets	8,497,054	2,963,109	11,460,163
Noncurrent assets:			
Cash and cash equivalents	1,233,708	1,777,349	3,011,057
Long-term notes receivable	1,345,622	-	1,345,622
Other long-term receivables	315,000	-	315,000
Debt issuance costs	30,078	-	30,078
Net capital assets	6,692,325	3,728,131	10,420,456
Total noncurrent assets	9,616,733	5,505,480	15,122,213
Total assets	\$ 18,113,787	\$ 8,468,589	\$ 26,582,376
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 406,170	\$ 39,195	\$ 445,365
Compensated absences	300,000	36,734	336,734
Deposits	210,178	9,854	220,032
Accrued interest payable	37,938	13,438	51,376
Bonds, leases, and agreements due within one year	691,882	98,512	790,394
Total current liabilities	1,646,168	197,733	1,843,901
Long-term liabilities due in more than one year:			
Tax allocation bonds	4,425,000	-	4,425,000
Special assessment bonds	305,000	-	305,000
Agreements and loans	74,282	177,798	252,080
Capital lease obligations	3,117,505	1,593,630	4,711,135
Compensated absences	397,951	-	397,951
Total long-term liabilities	8,319,738	1,771,428	10,091,166
Total liabilities	9,965,906	1,969,161	11,935,067
NET ASSETS			
Invested in capital assets, net of related debt	(657,558)	3,635,540	2,977,982
Restricted for:			
Capital projects	3,698,762	-	3,698,762
Housing	1,404,657	-	1,404,657
Debt service	374,738	-	374,738
Public safety	820,200	-	820,200
Streets	1,221,318	-	1,221,318
Parks and recreation	232,851	-	232,851
Unrestricted	1,052,913	2,863,888	3,916,801
Total net assets	8,147,881	6,499,428	14,647,309
Total liabilities and net assets	\$ 18,113,787	\$ 8,468,589	\$ 26,582,376

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOLOL
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	City Government		Total
					Governmental Activities	Business-type Activities	
City government							
Governmental activities:							
General government	1,060,522	\$ 286,278	\$ -	\$ 180,827	\$ (593,417)	-	\$ (593,417)
Public safety	3,507,849	203,911	226,359	-	(3,077,579)	-	(3,077,579)
Community development	552,680	-	-	-	(552,680)	-	(552,680)
Public works	837,026	214,211	202,078	150,123	(270,614)	-	(270,614)
Parks and recreation	374,377	127,995	21,615	38,159	(186,608)	-	(186,608)
Interest on long-term debt	432,196	-	-	-	(432,196)	-	(432,196)
Total governmental activities	6,764,650	832,395	450,052	369,109	(5,113,094)	-	(5,113,094)
Business-type activities:							
Water	1,089,259	1,183,406	-	1,344	-	95,491	95,491
Wastewater	1,946,226	2,154,002	131,699	45,833	-	385,308	385,308
Total business-type activities	3,035,485	3,337,408	131,699	47,177	-	480,799	480,799
Total City government	\$ 9,800,135	\$ 4,169,803	\$ 581,751	\$ 416,286	(5,113,094)	480,799	(4,632,295)
		General revenues:					
		Taxes:					
		Property taxes			\$ 1,050,738	\$ 229,560	\$ 1,280,298
		Sales taxes			1,617,542	-	1,617,542
		Motor vehicle in lieu taxes			570,011	-	570,011
		Transient occupancy taxes			347,448	-	347,448
		Other taxes			1,150,418	-	1,150,418
		Incremental property taxes			1,903,902	-	1,903,902
		Unrestricted interest and investment earnings			293,937	-	293,937
		Other general revenues			126,052	-	126,052
		Total general revenues			7,060,048	229,560	7,289,608
		Change in net assets			1,946,954	710,359	2,657,313
		Net assets, beginning			6,200,927	5,789,069	11,989,996
		Net assets, ending			\$ 8,147,881	\$ 6,499,428	\$ 14,647,309

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Redevelopment Administration Fund	City Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 2,002,460	\$ 3,243,399	\$ 1,233,708	\$ 2,852,100	\$ 9,331,667
Taxes receivable	189,898	65,390	-	-	255,288
Interest	-	10,755	-	-	10,755
Due from other governments	-	-	-	133,052	133,052
Assessments receivable	-	-	-	315,000	315,000
Notes receivable	-	76,989	-	1,268,633	1,345,622
Advances to other funds	21,977	1,416,827	-	-	1,438,804
Total assets	\$ 2,214,335	\$ 4,813,360	\$ 1,233,708	\$ 4,568,785	\$ 12,830,188
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 106,891	\$ 28,662	\$ -	\$ 184,130	\$ 319,683
Due to other governments	86,487	-	-	-	86,487
Advances from other funds	-	-	-	1,438,804	1,438,804
Deposits	210,178	-	-	-	210,178
Deferred revenue	-	76,989	-	1,589,113	1,666,102
Total liabilities	403,556	105,651	-	3,212,047	3,721,254
Fund balances:					
Reserved	-	1,907,129	-	86,551	1,993,680
Unreserved, designated	1,462,233	-	1,233,708	-	2,695,941
Unreserved, undesignated	348,546	2,800,580	-	-	3,149,126
Unreserved reported in nonmajor:					
Capital projects funds	-	-	-	308,914	308,914
Special revenue funds	-	-	-	961,273	961,273
Total fund balances	1,810,779	4,707,709	1,233,708	1,356,738	9,108,934
Total liabilities and fund balances	\$ 2,214,335	\$ 4,813,360	\$ 1,233,708	\$ 4,568,785	\$ 12,830,188
Total Governmental Fund Balances					\$ 9,108,934
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities and debt issue costs are not financial resources and therefore are not reported in the funds					6,722,403
Other long-term assets are not available to pay for current-period expenditures and are therefore offset by deferred revenue in the funds					1,666,102
Interest payable is accrued as a liability in the statement of net assets but is reported as a liability in the funds only when due					(37,938)
Some liabilities including tax allocation notes, claims and compensated absences are not due and payable in the current period and therefore are not reported in the funds					(9,311,620)
Net Assets of Governmental Activities					\$ 8,147,881

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	<u>General Fund</u>	<u>Redevelopment Administration Fund</u>	<u>City Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes	\$ 1,050,737	\$ 1,457,005	\$ -	\$ 446,897	\$ 2,954,639
Sales taxes	1,547,116	-	-	627,532	2,174,648
Other taxes	593,736	-	-	-	593,736
Licenses and permits	273,653	-	-	-	273,653
Fines and forfeits	87,626	-	-	-	87,626
Intergovernmental	641,852	-	-	567,237	1,209,089
Interest and rents	98,952	171,658	53,708	98,965	423,283
Charges for services	523,786	-	-	275,786	799,572
Miscellaneous	112,286	1,200	-	81,872	195,358
Total revenues	4,929,744	1,629,863	53,708	2,098,289	8,711,604
EXPENDITURES					
Current:					
General government	1,057,982	-	-	-	1,057,982
Public safety	3,138,318	-	-	214,986	3,353,304
Community development	-	365,110	-	1,204,641	1,569,751
Parks and recreation	295,382	-	-	16,500	311,882
Public works	610,991	-	-	214,575	825,566
Capital outlay	-	-	-	367,679	367,679
Debt service:					
Principal	8,090	504,920	-	141,685	654,695
Interest	806	325,349	-	107,118	433,273
Total expenditures	5,111,569	1,195,379	-	2,267,184	8,574,132
Excess (deficiency) of revenues over expenditures	(181,825)	434,484	53,708	(168,895)	137,472
OTHER FINANCING SOURCES (USES)					
Proceeds of long-term debt	-	-	-	85,716	85,716
Transfers in	-	-	-	85,580	85,580
Transfers out	-	-	-	(85,580)	(85,580)
Total other financing sources (uses)	-	-	-	85,716	85,716
Net change in fund balances	(181,825)	434,484	53,708	(83,179)	223,188
Fund balances, July 1	1,992,604	4,273,225	1,180,000	1,439,917	8,885,746
Fund balances, June 30	\$ 1,810,779	\$ 4,707,709	\$ 1,233,708	\$ 1,356,738	\$ 9,108,934

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 223,188</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
	164,256
Governmental funds report interest on long-term debt when payment is due, but interest expenses is accrued as incurred in the statement of activities	
	1,077
Governmental funds report long-term receivables but defer revenue from them until collections are actually received. In the statement of activities, principal collections on receivables are not reported as revenues. Disbursements made for long-term loans are recorded as expenditures in the funds, but are not recorded as additions to receivables in the statement of activities	
	1,017,071
Governmental funds report payments on long-term debt as expenditures, but such payments reduce liabilities in the statement of net assets and therefore are not recorded as expenses in the statement of activities	
	654,695
Governmental funds report proceeds of long-term debt as a current financial inflow but issuing debt increases liabilities in the statement of net assets and therefore is not reported in the statement of activities	
	(85,716)
Long-term obligations such as claims and compensated are recorded in the governmental funds only when due, but are recorded as liabilities in the statement of net assets when incurred	
	<u>(27,617)</u>
Net adjustment to reconcile to changes in net assets	<u>1,723,766</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,946,954</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Net Assets
Proprietary Funds
June 30, 2007

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 2,501,965	\$ 2,501,965
Accounts receivable	220,367	240,777	461,144
Total current assets	<u>220,367</u>	<u>2,742,742</u>	<u>2,963,109</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	940,955	836,394	1,777,349
Advances to other funds	-	614,152	614,152
Net other assets	<u>940,955</u>	<u>1,450,546</u>	<u>2,391,501</u>
Capital assets:			
Land	86,440	-	86,440
Pipelines and distribution system	3,645,949	-	3,645,949
Collection system	-	2,477,154	2,477,154
Reservoir	1,400,613	-	1,400,613
Equipment	67,037	361,700	428,737
Less accumulated depreciation	<u>(2,406,245)</u>	<u>(1,904,517)</u>	<u>(4,310,762)</u>
Net capital assets	<u>2,793,794</u>	<u>934,337</u>	<u>3,728,131</u>
Total noncurrent assets	<u>3,734,749</u>	<u>2,384,883</u>	<u>6,119,632</u>
Total assets	<u>\$ 3,955,116</u>	<u>\$ 5,127,625</u>	<u>\$ 9,082,741</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 35,499	\$ 3,696	\$ 39,195
Compensated absences	14,694	22,040	36,734
Accrued interest payable	7,227	6,211	13,438
Advances from other funds	614,152	-	614,152
Deposits	9,854	-	9,854
Long-term debt due in one year	72,883	25,629	98,512
Total current liabilities	<u>754,309</u>	<u>57,576</u>	<u>811,885</u>
Long-term debt due in more than one year:			
Capital lease obligations	843,687	749,943	1,593,630
Installment agreement	177,798	-	177,798
Total long-term debt due in more than one year	<u>1,021,485</u>	<u>749,943</u>	<u>1,771,428</u>
Total liabilities	<u>1,775,794</u>	<u>807,519</u>	<u>2,583,313</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,640,381	995,159	3,635,540
Unrestricted	(461,059)	3,324,947	2,863,888
Total net assets	<u>\$ 2,179,322</u>	<u>\$ 4,320,106</u>	<u>\$ 6,499,428</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2007

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,133,874	\$ 1,944,446	\$ 3,078,320
Other operating revenues	4,019	38,670	42,689
Total operating revenues	<u>1,137,893</u>	<u>1,983,116</u>	<u>3,121,009</u>
OPERATING EXPENSES			
Personnel services	197,807	132,366	330,173
Interfund charges for services	369,589	278,184	647,773
Contractual and other services	156,417	82,152	238,569
Intergovernmental treatment costs	-	1,248,157	1,248,157
Utilities	108,774	-	108,774
Supplies	49,624	32,278	81,902
Insurance, claims, and expenses	-	15,317	15,317
Depreciation	147,672	102,331	250,003
Total operating expenses	<u>1,029,883</u>	<u>1,890,785</u>	<u>2,920,668</u>
Operating income (loss)	<u>108,010</u>	<u>92,331</u>	<u>200,341</u>
NON-OPERATING REVENUES (EXPENSES)			
Property taxes	-	229,560	229,560
Interest and investment revenue	45,513	170,886	216,399
Insurance recovery	-	121,348	121,348
Grants	-	10,351	10,351
Interest expense	(59,376)	(55,441)	(114,817)
Net non-operating revenues (expenses)	<u>(13,863)</u>	<u>476,704</u>	<u>462,841</u>
Income before contributions and transfers	<u>94,147</u>	<u>569,035</u>	<u>663,182</u>
Contributions and transfers			
Transfers	(7,852)	7,852	-
Capital contributions	1,344	45,833	47,177
Total contributions and transfers	<u>(6,508)</u>	<u>53,685</u>	<u>47,177</u>
Change in net assets	87,639	622,720	710,359
Total net assets, July 1	<u>2,091,683</u>	<u>3,697,386</u>	<u>5,789,069</u>
Total net assets, June 30	<u>\$ 2,179,322</u>	<u>\$ 4,320,106</u>	<u>\$ 6,499,428</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,112,497	\$ 1,977,415	\$ 3,089,912
Payments to suppliers	(305,656)	(1,380,808)	(1,686,464)
Payments to employees	(198,636)	(130,083)	(328,719)
Payments to other funds for services	(369,589)	(278,184)	(647,773)
Other operating receipts	4,019	38,670	42,689
Net cash provided by (used for) operating activities	<u>242,635</u>	<u>227,010</u>	<u>469,645</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers	(7,852)	7,852	-
Property taxes	-	229,560	229,560
Repayment of advances from other funds	154,837	(154,837)	-
Net cash provided by noncapital financing activities	<u>146,985</u>	<u>82,575</u>	<u>229,560</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	1,344	45,833	47,177
Insurance recovery	-	121,348	121,348
Capital grants	-	10,351	10,351
Principal payments on long-term debt	(68,847)	(279,428)	(348,275)
Interest paid on long-term debt	(59,499)	(49,230)	(108,729)
Purchases of capital assets	(267,176)	(1,560)	(268,736)
Net cash provided by (used for) capital and related financing activities	<u>(394,178)</u>	<u>(152,686)</u>	<u>(546,864)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	45,513	170,886	216,399
Net cash provided by investing activities	<u>45,513</u>	<u>170,886</u>	<u>216,399</u>
Net increase (decrease) in cash and cash equivalents	40,955	327,785	368,740
Cash and cash equivalents beginning of the year	<u>900,000</u>	<u>3,010,574</u>	<u>3,910,574</u>
Cash and cash equivalents-end of the year	<u>\$ 940,955</u>	<u>\$ 3,338,359</u>	<u>\$ 4,279,314</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 108,010	\$ 92,331	\$ 200,341
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	147,672	102,331	250,003
Change in assets and liabilities:			
Receivables, net	(19,352)	32,968	13,616
Accounts payable	9,159	(2,904)	6,255
Other liabilities	(2,854)	2,284	(570)
Net cash provided by (used for) operating activities	<u>\$ 242,635</u>	<u>\$ 227,010</u>	<u>\$ 469,645</u>

Noncash capital financing activities:

None.

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2007

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Sebastopol is a municipal corporation governed by an elected five member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

The Redevelopment Agency of the City of Sebastopol is a legally separate entity for which the City is financially accountable and it is governed by the elected City Council. The financial activities of the Agency are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the *proprietary fund financial statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales taxes, other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Redevelopment Agency's 1993 Capital Projects Administration Fund* is maintained to account for the tax increment revenues used to fund debt service and other redevelopment activities.

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system. The *wastewater fund* accounts for the operation of the City's wastewater collection activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, the Sonoma County Treasurer's Pool, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, and time deposits and savings and demand accounts.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value. The Sonoma County Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Sonoma collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000 (\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2003 at the date these new financial reporting standards were implemented; and the City has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Public domain infrastructure	50
System infrastructure	15-40
Vehicles and equipment	5 - 15

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for a portion of unpaid accumulated sick leave since the City does have a policy to pay certain amounts when employees separate from service with the City. All vacation pay and applicable sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans in compliance with adopted general financial policies of the City and are tentative and are subject to change

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 6,722,403 difference are as follows:

Capital assets and debt issuance costs	\$ 12,652,307
Less: Accumulated depreciation	<u>(5,929,904)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 6,722,403</u>

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$9,311,620 difference are as follows:

Long-Term Debt Obligations:	
Tax allocation bonds	\$ 4,640,000
Refunding capital lease	2,149,600
Installment agreement	1,143,905
Special assessment bonds	315,000
CEC Loan	85,716
Capital lease obligations-equipment	279,448
Compensated absences	<u>697,951</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (9,311,620)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 1,723,766 difference and other significant components of the difference are as follows:

Capital outlay	\$ 458,436
Depreciation expense	(294,180)
Repayment of long-term debt principal	654,695
Long-term receivables deferred in the funds	1,017,071
Proceeds of long-term debt	(85,716)
Other items	<u>(26,540)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,723,766</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds. Expenditure budgets were significantly exceeded by the General Fund (\$258,905); Measure M (\$4,283); Equipment replacement(\$2,476); Federal funds(\$22,493). Solar Mitigation Fund (\$16,500), Super playground(\$76,934), CDBG (\$70,350), Police grants(\$35,834), Special construction(\$33,697) , traffic impact(\$27,869), redevelopment admin (\$139,411) and redevelopment low and moderate housing by \$225,580. The expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2007 consisted of the following:

Pooled demand deposits	\$ 346,022
Pooled investments	12,709,300
Investments with trustees	<u>555,659</u>
 Total deposits and investments	 <u>\$13,610,981</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2007, \$ 236,457 of the City's bank balances of \$ 384,060 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 236,457</u>
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Investments - At June 30, 200, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Sonoma County Investment Pool	Average 414 days	\$ 9,698,243
Investment agreement	November 25, 2021	481,512
Lease proceeds- money market	Average 60 days	3,011,057
Wells Fargo / First American Funds	Average 200 days	<u>74,147</u>
 Totals		 <u>\$ 13,264,959</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities prescribed in Sections 53600 through 53609 of the California Government Code. The investment agreement and mutual funds are investments made pursuant to trust indentures for related debt.

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in mutual funds was rated AAA by Moody's Investor Service. The County Investment Pool and investment agreement are unrated.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$3,566,716 investment other than the County Pool, the entire \$3,566,716 are held by the investment's counterparty in the name of the City. The City's investment policy specifies that securities are to be held by a third party, other than the counterparty, in the City's name, whenever possible.

B. Composition of Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Redevelopment Admin. Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental</u>	<u>Water</u>	<u>Wastewater</u>
Accounts	\$ -	\$ -	\$ -	\$ -	\$ 220,367	\$ 240,777
Taxes	189,898	65,390	-	255,288	-	-
Interest	-	10,755	-	10,755	-	-
Governments	-	-	133,052	133,052	-	-
Notes/loans	-	76,989	1,268,633	1,345,622	-	-
Assessments	-	-	315,000	315,000	-	-
Totals	<u>\$ 189,898</u>	<u>\$ 153,134</u>	<u>\$ 1,716,685</u>	<u>\$ 2,059,717</u>	<u>\$ 220,367</u>	<u>\$ 240,777</u>

C. Interfund Transfers, receivables and payables

1. The composition of interfund transfers of June 30, 2007, is as follows:

<u>Transfers In:</u>	<u>General Fund</u>	<u>Redevelopment Admin Fund</u>	<u>Nonmajor Funds</u>	<u>Water and Wastewater</u>	<u>Total Transfers Out</u>
<u>Transfers Out:</u>					
General fund	\$ -	\$ -	\$ -	\$ -	\$ -
Redevelopment	-	-	-	-	-
Nonmajor funds	-	-	85,580	-	85,580
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,580</u>	<u>\$ -</u>	<u>\$ 85,580</u>

The primary transfers out of the general fund were made to fund routine project costs.

2. The composition of interfund balances was:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Redevelopment admin	Redevelopment low moderate income housing	\$ 1,416,827
General	Nonmajor funds	21,977
Wastewater enterprise	Water enterprise	614,152
	Total	<u>\$ 2,052,956</u>

The cash advances to the low and moderate income housing fund were made to fund land purchases, and the advance to the water fund was made to fund cash flow operating needs. The \$1.4 million advance to the low moderate fund is long-term to be repaid from future tax increment revenues.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements
June 30, 2007

4. Detailed Notes on All Funds (Continued)

D. Long-Term Notes and Loans Receivable

<u>Party to Loan</u>	<u>Purpose of Loan</u>	<u>Amount</u>
Individual homeowners	Individual home rehabilitation	\$ 233,918
Burbank Housing Corporation	Acquisition and construction loan	562,450
Burbank Housing Corporation	Property acquisition loan	300,000
Affordable Housing Associates	Pre-development housing loan	221,254
Chamber of Commerce	Business development loan	28,000
	Totals	<u>\$1,345,622</u>

The \$233,918 housing rehabilitation loans bear interest at 3 to 6 percent with some loans deferred with no interest. Repayable loans are to be repaid in in monyjlly installments of principal and interest taken together over terms of 15 to 30 years. The predevelopment loan bears interest at 3 percent and may be forgiven under certain circumstances.

The City's Redevelopment Agency has an agreement with Burbank Housing Corporation for the development and construction of affordable housing units within the City. Among other matters, the agreement provides that the City shall loan Burbank up to \$50,000 for each of 20 units to be constructed; and the \$1,000,000 may used for any approved project costs. In addition, the City is to consider additional strategies to provide up to an additional \$600,000 of project financing. The \$1,000,000 initial loan is ultimately to be assumed on a proportionate basis by the homebuyers of the affordable units.

If Burbank is unable to obtain additional financing to complete the project, the project may be returned to the City's Redevelopment Agency and all Agency loans may be forgiven. The monies advanced to Burbank as of June 30, 2007 have been primarily for project design costs. Under the arrangement, the Agency is to sell a two acre parcel of land to Burbank as the Project site. The sales price shall be \$900,000 or a lesser price if agreed to by the parties. At June 30, 2007, the escrow for the purchase of the two acre parcel had not closed.

The homebuyers are to execute a deed of trust in favor of the City's Redevelopment Agency for their proportionate share of the Agency's provided funding. The deeds of trust shall be junior to any first or second mortgage deeds of trust. The related Agency loan shall be repayable if the housing units are sold to non-qualifying buyers or there are otherwise violations of the affordability restrictions and covenants.

The \$300,000 property acquisition loan bears interest at 3 percent and is to be repaid partially upon the sale of each unit of affordable housing to be constructed on the site. The entire balance of the loan is due in full five years after closing of escrow on the land parcel. The City's Agency at its option may further extend the maturity date of this loan.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 2,891,696	\$ -	\$ -	\$ 2,891,696
Total capital assets, not being depreciated	<u>2,891,696</u>	<u>-</u>	<u>-</u>	<u>2,891,696</u>
Capital assets, being depreciated:				
Buildings	5,263,683	229,492	-	5,493,175
Machinery and equipment	1,129,976	118,906	-	1,248,882
Vehicles	2,112,537	110,038	(25,929)	2,196,646
Infrastructure-Street system	791,831		-	791,831
Total capital assets being depreciated	<u>9,298,027</u>	<u>458,436</u>	<u>(25,929)</u>	<u>9,730,534</u>
Less accumulated depreciation for:				
Buildings	(3,780,660)	(75,862)	-	(3,856,522)
Infrastructure	-	(28,342)		(28,342)
Machinery and equipment	(643,558)	(86,687)	-	(730,245)
Vehicles	<u>(1,237,436)</u>	<u>(103,289)</u>	<u>25,929</u>	<u>(1,314,796)</u>
Total accumulated depreciation	<u>(5,661,654)</u>	<u>(294,180)</u>	<u>25,929</u>	<u>(5,929,905)</u>
Total capital assets, being depreciated, net	<u>3,636,373</u>	<u>164,256</u>	<u>-</u>	<u>3,800,629</u>
Governmental activities capital assets, net	<u>\$ 6,528,069</u>	<u>\$ 164,256</u>	<u>\$ -</u>	<u>\$ 6,692,325</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>86,440</u>	<u>-</u>	<u>-</u>	<u>86,440</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and distribution system	3,378,773	267,176	-	3,645,949
Pipelines and collection system	2,475,594	1,560	-	2,477,154
Equipment	428,737	-	-	428,737
Total capital assets being depreciated	<u>7,683,717</u>	<u>268,736</u>	<u>-</u>	<u>7,952,453</u>
Less accumulated depreciation for:				
Reservoirs	(495,641)	(30,439)	-	(526,080)
Pipelines and distribution system	(1,728,273)	(116,390)	-	(1,844,663)
Pipelines and collection system	(1,482,210)	(95,237)	-	(1,577,447)
Equipment	(354,634)	(7,937)	-	(362,571)
Total accumulated depreciation	<u>(4,060,759)</u>	<u>(250,003)</u>	<u>-</u>	<u>(4,310,762)</u>
Total capital assets, being depreciated, net	<u>3,622,959</u>	<u>18,733</u>	<u>-</u>	<u>3,641,691</u>
Business-type activities capital assets, net	<u>\$ 3,709,398</u>	<u>\$ 18,733</u>	<u>\$ -</u>	<u>\$ 3,728,131</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 2,540
Public safety	187,685
Public works	41,460
Parks and recreation	<u>62,495</u>
Total depreciation expense-governmental activities	<u>\$ 294,180</u>
Business-type activities:	
Water	\$ 147,672
Wastewater	<u>103,331</u>
Total depreciation expense-business type activities	<u>\$ 250,003</u>

F. Long-Term Debt

Capital Lease Obligation - Advance Refunding Lease

In March of 2004, the City and its Development Agency entered into a capital lease arrangement with West America Bank in an original amount of \$3,217,000 in order to obtain financing to advance refund and defease the Agency's \$3,485,000 1994 Certificates of Participation. The lease bears interest at 4.05 percent and is payable in semi-annual installments of about \$203,500 each June and December 1 through June 1, 2013.

Future minimum lease payment requirements are:

<u>Fiscal Year</u>	<u>Total</u>
2008	\$ 407,119
2009	407,191
2010	407,121
2011	407,191
2012	407,191
2013	<u>407,121</u>
Total minimum lease payments	2,442,934
Less amounts representing interest	<u>(293,334)</u>
Present value of net minimum lease payments	<u>\$ 2,149,600</u>

All 1994 Certificates have been retired.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

F. Long-Term Debt(Continued)

The City has covenanted to make annual appropriations in its budget to provide funds for all lease payments. The lease receivable by the Agency and lease payable by the City to the Agency have been eliminated from the accompanying financial statements as the Agency is a component unit of the City.

Tax Allocation Refunding Bonds 1997 Series

On September 16, 1997 The City's Development Agency issued \$ 6,300,000 in subordinate tax allocation bonds, series 1997 to advance refund and retire the Agency's 1986 and 1991 bond issues. The tax allocation bonds consisted of \$3,195,000 in serial bonds bearing interest at rates from 3.5 percent to 5.2 percent and \$3,105,000 in term bonds. The term bonds are subject to mandatory sinking fund early redemption commencing October 1, 2013. The bonds are secured by a pledge of the Agency's tax increment revenues. Future debt service requirements are:

Fiscal Year	Principal	Interest	Total
2008	\$ 215,000	\$ 232,199	\$ 447,199
2009	225,000	222,019	447,019
2010	235,000	211,092	446,092
2011	275,000	198,715	473,715
2012	285,000	184,995	469,995
2013-2017	1,670,000	683,438	2,353,438
2018-2022	1,735,000	182,382	1,917,382
Totals	\$ 4,640,000	\$ 1,914,840	\$ 6,554,840

Special Assessment Bonds With Governmental Commitment

The special assessment bonds were issued in an original amount of \$732,475 for the purpose of facilitating improvements to the Woodstone Center. The bonds are secured solely by assessments levied against property owners within the assessment district and from monies on deposit in a reserve fund. The City has no obligation to advance funds for payment of bond debt service. The City has indicated, however, that it may at its own option and in its sole discretion elect to advance funds to pay bond debt service to the extent of delinquencies. The bonds consist of 4.25 to 6.7 percent serial bonds maturing through September 2, 2022. Future debt service is:

Fiscal Year	Principal	Interest	Total
2008	\$ 10,000	\$ 20,715	\$ 30,715
2009	10,000	19,585	29,585
2010	10,000	18,985	28,985
2011	10,000	18,385	28,385
2012	20,000	17,785	37,785
2013-2017	95,000	72,780	167,780
2018-202	125,000	38,100	163,100
2023-2024	35,000	2,345	37,345
Totals	\$ 315,000	\$ 208,140	\$ 523,140

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Installment Sale Agreement

The City entered into an installment sale agreement with an original amount of \$550,000 for the purpose of facilitating construction of a water well. The agreement bears interest at 6.39 percent per annum and is payable in semi-annual installments of \$28,773 through October 23, 2011. Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 44,052	\$ 13,493	\$ 57,545
2009	46,912	10,633	57,545
2010	49,956	7,589	57,545
2011	53,200	4,345	57,545
2012	27,730	1,033	28,773
Totals	\$ 221,850	\$ 37,103	\$ 258,953

Capital Lease Obligations - Equipment

The City has entered into four capital lease agreements for the purpose principally of purchasing a fire truck, other equipment and constructing a water reservoir (\$810,000). The fire truck lease bears interest at 3.38 percent and is payable in annual installments of \$97,058. The water asset lease is payable in semiannual installments in amounts sufficient to retire the obligation by November 1, 2005. The assets have been capitalized in the governmental and business activities capital assets. Future debt service is:

<u>Fiscal Year Ending June 30</u>	<u>Governmental</u>	<u>Business-Type</u>
2008	\$ 103,730	-
2009	97,058	-
2010	97,058	-
Total minimum lease payments	297,846	-
Less amount representing interest	(18,398)	-
Present value net minimum lease payments	\$ 279,448	-

CEC Loan

During the fiscal year, the City drew down \$85,716 on a loan from the California Energy Commission. The loan approval is for a total principal amount of \$242,898. After the loan principal is drwn down in full, then the loan is repayable in semi-annual installments of \$18,355 including principal and interest through fiscal year 2016.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Capital Lease Obligation – Capital Projects

In the 2006 fiscal year, the city entered into a financing arrangement to obtain \$2,880,000 in funds for future capital projects. The general fund fund will be responsible for paying debt service on the governmental activities portion of the lease obligation which is about 41 percent of the total obligation.

Future minimum lease payment requirements are:

<u>Fiscal Year</u>	<u>Governmental</u>	<u>Business</u>	<u>Total</u>
2008	\$ 92,825	\$ 133,744	\$ 226,569
2009	92,825	133,744	226,569
2010	92,825	133,744	226,569
2011	92,825	133,744	226,569
2012	92,825	133,744	226,569
2013-2017	464,125	668,720	1,132,845
2018-2022	464,125	668,720	1,132,845
2023-2026	371,300	534,910	906,210
Total minimum lease payments	1,763,675	2,541,070	4,304,745
Less amounts representing interest	(619,770)	(892,980)	(1,512,750)
Present value of net minimum lease payments	\$ 1,143,905	\$1,648,090	\$ 2,791,995

Changes in Long-term liabilities

Long-term debt activity for the 2007 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental					
Activities:					
1997 tax allocation refunding bonds	\$ 4,845,000	\$ -	\$ 205,000	\$ 4,640,000	\$ 215,000
Special assessment bonds	325,000	-	10,000	315,000	10,000
Capital lease- capital projects	1,180,000	-	36,095	1,143,905	37,798
Capital lease-advance refunding	2,460,038	-	310,438	2,149,600	323,300
Capital lease obligations-equipment	372,610	-	93,162	279,448	94,350
CEC Loan	-	85,716	-	85,716	11,434
Compensated absences	670,344	227,607	200,000	697,951	300,000
Total	\$ 9,852,992	\$ 313,323	\$ 854,695	\$ 9,311,620	\$ 991,882
Business-Type Activities:					
General obligation bonds	\$ 255,000	\$ -	\$ 255,000	\$ -	\$ -
Installment agreement	263,215	-	41,365	221,850	44,052
Capital lease obligations	1,700,000	-	51,910	1,648,090	54,460
Totals	\$ 2,218,215	\$ -	\$ 348,275	\$ 1,869,940	\$ 98,512

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

5. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City, due to the costs of available coverage, participates as a member of the Redwood Empire Municipal Insurance Fund (REMIF).

REMIF provides joint protection programs for public entities covering automobile, general liability, errors and omissions, property and workers compensation claims. Under the program, the City has a \$5,000 retention limit similar to a deductible with the REMIF being responsible for losses above that amount up to \$500,000 for liability losses, \$300,000 for workers compensation claims, and \$25,000 for property damage. The Fund carries purchased excess commercial liability insurance of \$9.5 million in excess of its \$500,000 limit, and a commercial property policy for \$200 million. Financial information pertaining to REMIF can be obtained from its administrative offices at 414 W. Napa Street, Sonoma, California 95476. Liabilities of the City are reported in the statement of net assets for the when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The City's only exposure to claim liabilities would be for losses, if any, not covered by REMIF.

There have been not significant changes in insurance coverages in fiscal 2007. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no claim liabilities at June 30, 2006.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2007

F. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and allocations. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

G. Jointly Governed Organizations and Operating Agreements

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. The City is a participant in the following organizations other than the insurance authority described in the preceding notes. The City is a party to the following agreement agreements:

Santa Rosa Subregional Wastewater System. The City has an agreement with System for the treatment of wastewater as the City does not own or operate its own wastewater treatment plant. The City's obligations under the agreement are to pay to the System its share of the costs of operating the system and treatment of wastewater. The City records these payments as operating expenses in its wastewater enterprise fund

D. Public Employees Retirement System

Plan Description. The City of Sebastopol contributes to the California Public Employees Retirement System (PERS), a cost-sharing, multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the State statute and City ordinance. Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the City are established by and may be amended by PERS. Plan members are required to contribute 7 percent of their annual covered salary for regular employees and 9 percent for safety employees. The City is required to make contributions at actuarially determined rates. The current rates were 13.325 percent for regular employees, 18.725 percent for fire employees, and 30.828 percent for police employees. The City's annual pension cost for the most recent three year is as follows:

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2007**

5. Other Information(Continued)

D. Public Employees Retirement System (Continued)

Three-year Trend of Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>	6/30/05	\$ 126,260	100%	\$ -
	6/30/06	\$ 224,634	100%	\$ -
	6/30/07	\$ 244,371	100%	\$ -
<i>Safety employees</i>	6/30/05	\$ 225,581	100%	\$ -
	6/30/06	\$ 314,331	100%	\$ -
	6/30/07	\$ 337,931	100%	\$ -

The City also pays the employee's share of required contributions which amounts are not included in the above schedule.

E. Other Post Employment Benefits

The City provides post employment health insurance benefits, as per the requirements of a local resolution, for retirees and their dependents. The benefits are paid at amounts specified by a City resolution for retirees having at least 10 years of employment with the City. For the fiscal year ended June 30, 2007, there were 23 retired employees receiving such benefits and the City paid \$43,254 in premiums. The City funds these costs on a pay as you go basis. All annual required contributions (ARC) were paid during the year and the City has no net benefit obligation at year end.

F. Restricted Net Assets and Designated Fund Balances

The \$ 7,752,526 restricted amount in the governmental activities statement net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

Reserved fund balances consisted of the following:

Purpose	General Fund	Redevelopment Admin Fund	Nonmajor Funds
Debt service	\$ -	\$ 490,302	\$ 86,551
Advances to other funds	-	1,416,827	-
	<u>\$ -</u>	<u>\$ 1,907,129</u>	<u>\$ 86,551</u>

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements
June 30, 2007

5. Other Information(Continued)

F. Restricted Net Assets and Designated Fund Balances(Continued)

Portions of unreserved fund balances in the fund financial statements may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances were:

Purpose	General Fund	Capital Projects
Retirees medical premiums	\$ 400,000	\$ -
Employee vacation and sick leave	572,413	-
Workers compensation	50,000	-
Capital projects	-	1,233,708
Equipment replacements	269,820	-
Buildings	170,000	-
Economic uncertainty	-	-
Totals	<u>\$ 1,462,233</u>	<u>\$ 1,233,708</u>

G. Subsequent Events

On November 6, 2007, the City's Community Development Agency issued \$4,575,000 of its 2007 Tax Allocation Refunding Bonds for the purpose of advance refunding the Agency's outstanding 1997 Tax Allocation Refunding Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
CITY OF SEBASTOPOL
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Fund Balance, July 1	\$ 1,992,604	\$ 1,992,604	\$ 1,992,604	\$ -
Resources (inflows):				
Property taxes	1,035,400	1,035,400	1,050,737	15,337
Sales taxes	1,589,046	1,589,046	1,547,116	(41,930)
Transient occupancy taxes	290,000	290,000	347,448	57,448
Other taxes	346,000	346,000	246,288	(99,712)
License permits	304,500	304,500	273,653	(30,847)
Fines and forfeits	65,000	65,000	87,626	22,626
Interest and rents	118,000	118,000	98,952	(19,048)
Intergovernmental	543,270	543,270	641,852	98,582
Charges for services	597,822	597,822	523,786	(74,036)
Miscellaneous	74,100	74,100	112,286	38,186
Amounts available for charges to appropriations	<u>6,955,742</u>	<u>6,955,742</u>	<u>6,922,348</u>	<u>(33,394)</u>
Charges to appropriations:				
General government:				
Legislative	48,521	48,893	51,191	(2,298)
Manager	224,798	233,006	237,241	(4,235)
Finance	154,318	167,048	172,783	(5,735)
Legal	138,191	141,041	147,079	(6,038)
Insurance	-	-	(3,674)	3,674
Miscellaneous	-	27,535	91,023	(63,488)
Nondepartmental	27,535	-	-	-
Employee benefits	-	16,020	(14,773)	30,793
Government buildings	45,025	45,025	53,170	(8,145)
Community support	41,014	45,514	46,406	(892)
Planning	275,039	281,939	277,536	4,403
Public safety:				
Police	2,587,940	2,628,871	2,636,879	(8,008)
Animal control	13,000	13,000	10,889	2,111
Emergency	2,700	2,700	3,166	(466)
Fire	461,171	486,224	487,384	(1,160)
Public Works:				
Building inspection	114,977	123,917	136,778	(12,861)
Engineering	146,818	159,124	165,365	(6,241)
Corporation yard	70,462	86,332	33,800	52,532
Streets	45,936	50,236	252,847	(202,611)
Parking	20,212	20,212	21,299	(1,087)
Street cleaning	1,000	1,000	902	98
Parks and recreation				
Parks	134,135	136,135	152,710	(16,575)
Pool	92,011	92,011	86,648	5,363
Recreation	46,881	46,881	56,024	(9,143)
Debt Service	<u>-</u>	<u>-</u>	<u>8,896</u>	<u>(8,896)</u>
Total charges to appropriations	<u>4,691,684</u>	<u>4,852,664</u>	<u>5,111,569</u>	<u>(258,905)</u>
Fund Balance, June 30	<u>\$ 2,264,058</u>	<u>\$ 2,103,078</u>	<u>\$ 1,810,779</u>	<u>\$ (292,299)</u>

Required Supplementary Information
CITY OF SEBASTOPOL
Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2007

Note A. Explanation of Difference Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 6,922,348
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(1,992,604)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 4,929,744</u></u>
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Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 5,111,569
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>-</u>

Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,111,569</u></u>
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SUPPLEMENTARY INFORMATION

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Special Revenue Funds

	Police Grants	Fire Safer	Fire Training	Gas Tax	Special Construction	Redevelopment Agency Low and Moderate Income Housing	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special Sales Tax
Assets													
Cash and investments	\$ 114,298	\$ 5,585	\$ 862	\$ 57,639	\$ 184,211	\$ 279,620	\$ 752,869	\$ 23,902	\$ 5,482	\$ 3,662	\$ 183,276	\$ 88,396	\$ 597,506
Receivables:													
From other governments	4,117	34,787	-	27,016	-	-	-	-	-	-	-	-	37,900
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	1,268,633	-	-	-	-	-	-	-
Total assets	\$ 118,415	\$ 40,372	\$ 862	\$ 84,655	\$ 184,211	\$ 1,548,253	\$ 752,869	\$ 23,902	\$ 5,482	\$ 3,662	\$ 183,276	\$ 88,396	\$ 635,406
Liabilities and Fund Balances													
Liabilities:													
Accounts payable	\$ 551	\$ 7,605	\$ 139	\$ 33	\$ -	\$ 143,596	\$ -	\$ 7,562	\$ -	\$ 1,157	\$ -	\$ -	\$ 866
Advances from other funds	-	-	-	-	-	1,416,827	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	1,268,633	-	-	5,480	-	-	-	-
Total liabilities	551	7,605	139	33	-	2,829,056	-	7,562	5,480	1,157	-	-	866
Fund balances:													
Reserved	-	-	-	-	-	26,813	-	-	-	-	-	-	-
Unreserved	117,864	32,767	723	84,622	184,211	(1,307,616)	752,869	16,340	2	2,505	183,276	88,396	634,540
Total fund balances	117,864	32,767	723	84,622	184,211	(1,280,803)	752,869	16,340	2	2,505	183,276	88,396	634,540
Total liabilities and fund balances	\$ 118,415	\$ 40,372	\$ 862	\$ 84,655	\$ 184,211	\$ 1,548,253	\$ 752,869	\$ 23,902	\$ 5,482	\$ 3,662	\$ 183,276	\$ 88,396	\$ 635,406

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Special Revenue Funds

	Super Play Ground	BIA Tourism	Vehicle Abatement	Ives Park Grant	Pool	Solar Pool	Skate Park Grant	Ives Pool Energy	Solar Mitigation	Skate Park
Assets										
Cash and investments	\$ 11,610	\$ 10,165	\$ 28,824	\$ 88	\$ 10,341	\$ 64,274	\$ 1,659	\$ 6,507	\$ 5,903	\$ 36,957
Receivables from other governments	-	13,231	-	-	-	-	-	-	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 11,610	\$ 23,396	\$ 28,824	\$ 88	\$ 10,341	\$ 64,274	\$ 1,659	\$ 6,507	\$ 5,903	\$ 36,957
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ 417	\$ 17,668	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 700	\$ -
Advances from other funds	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-
Total liabilities	417	17,668	-	-	-	-	-	-	700	-
Fund balances:										
Reserved	11,193	5,728	28,824	88	10,341	64,274	1,659	6,507	5,203	36,957
Unreserved	11,193	5,728	28,824	88	10,341	64,274	1,659	6,507	5,203	36,957
Total fund balances	\$ 11,610	\$ 23,396	\$ 28,824	\$ 88	\$ 10,341	\$ 64,274	\$ 1,659	\$ 6,507	\$ 5,903	\$ 36,957
Total liabilities and fund balances										

City of Sebastopol
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007

	Capital Projects										Debt Service	Total Nonmajor Governmental Funds
	CDBG	Undergrounding	SOWA Zone A Project	Laguna de Santa Rosa Projects	Wildlife Habitat Restoration	Flooding	CEC Loan and Solar	Federal Funds	Street Rehab	Equipment Replacement	Woodstone Assessment district	
Assets												
Cash and investments	\$ 40,768	\$ 174,532	\$ 134	\$ 8,632	\$ -	\$ 10,366	\$ 84,294	\$ -	\$ -	\$ -	\$ 59,738	\$ 2,852,100
Receivables:												
Receivables from other governments	16,001	-	-	-	-	-	-	-	-	-	-	133,052
Assessments receivable	-	-	-	-	-	-	-	-	-	315,000	-	315,000
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	1,268,933
Total assets	\$ 56,769	\$ 174,532	\$ 134	\$ 8,632	\$ -	\$ 10,366	\$ 84,294	\$ -	\$ -	\$ 374,738	\$ -	\$ 4,568,785
Liabilities and Fund Balances												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23	\$ 3,813	\$ -	\$ -	\$ -	\$ 184,130
Advances from other funds	-	-	-	-	-	-	-	19,501	2,476	-	-	1,439,804
Deferred revenue	-	-	-	-	-	-	-	-	-	315,000	-	1,589,113
Total liabilities	-	-	-	-	-	-	23	23,314	2,476	315,000	-	3,212,047
Fund balances:												
Reserved	-	-	-	-	-	-	-	-	-	59,738	-	86,551
Unreserved	56,769	174,532	134	8,632	-	10,366	84,271	(23,314)	(2,476)	-	-	1,270,187
Total fund balances⁽¹⁾	56,769	174,532	134	8,632	-	10,366	84,271	(23,314)	(2,476)	59,738	-	1,356,738
Total liabilities and fund balances	\$ 56,769	\$ 174,532	\$ 134	\$ 8,632	\$ -	\$ 10,366	\$ 84,294	\$ -	\$ -	\$ 374,738	\$ -	\$ 4,568,785

CITY OF SEBASTOPOL
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2007

	Special Revenue Funds												
	Police Grants	Fire Safer	Fire Training	Gas Tax	Special Construction	Redevelopment Agency Low and Moderate Income Housing	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special sales Tax
Revenues:													
Property taxes						\$ 446,897						\$	
Sales taxes										8,271		52,379	566,882
Intergovernmental	127,673	71,338	4,210	166,898				86,282			58,162		
Charges for services					5,850		20,075	824		48	5,165	1,703	21,530
Interest	5,487				7,773		600						
Miscellaneous						25,707							
Total revenues	133,160	71,338	4,210	166,898	13,623	495,931	20,675	87,106		8,319	63,327	54,082	588,412
Expenditures:													
Current:													
General government													
Public safety	169,078	39,171	6,737										
Public works				65,342	2,000		27,889	89,439		5,814		4,283	
Community development						1,074,729							
Parks and recreation													277,471
Capital outlay													
Debt service													
Principal					12,303	10,680							108,702
Interest					19,394	12,828							49,488
Total expenditures	169,078	39,171	6,737	65,342	33,697	1,098,237	27,889	89,439		5,814		4,283	435,661
Excess (deficiency) of revenues over (under) expenditures	(35,918)	32,167	(2,527)	101,496	(20,074)	(602,306)	(7,214)	(2,333)		2,505	63,327	49,799	152,751
Other financing sources (uses):													
Issuance of debt													
Transfers in											35,130		
Transfers out				(35,130)	(15,000)								(35,000)
Total other financing sources (uses)				(35,130)	(15,000)						35,130		(35,000)
Net change in fund balances	(35,918)	32,167	(2,527)	66,366	(35,074)	(602,306)	(7,214)	(2,333)		2,505	98,457	49,799	117,751
Fund balances, July 1	153,782	600	3,250	18,256	219,285	(678,487)	760,083	18,673	2	84,819	38,597	516,769	634,540
Fund balances, June 30	\$ 117,864	\$ 32,767	\$ 723	\$ 84,622	\$ 184,211	\$ (1,280,803)	\$ 752,869	\$ 16,340	\$ 2	\$ 2,505	\$ 183,276	\$ 88,396	\$ 634,540

CITY OF SEBASTOPOOL
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2007

Special Revenue Funds

	Super Play Ground	BIA Tourism	Vehicle Abatement	Ives Park Grant	Pool	Solar Pool	Skate Park Grant	Ives Pool Energy	Solar Mitigation	Skate Park
Revenues:										
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Charges for services	-	59,476	-	-	-	-	-	-	18,439	-
Interest	127	-	1,090	-	200	1,329	32	125	114	712
Miscellaneous	38,000	-	-	-	-	9,525	-	-	-	8,040
Total revenues	38,127	59,476	1,090	-	200	10,854	32	125	18,553	8,752
Expenditures:										
Current:										
General government	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-	-
Community development	-	53,748	-	-	-	-	-	-	16,500	-
Parks and recreation	-	-	-	-	-	-	-	-	-	10,798
Capital outlay	76,934	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-
Total expenditures	76,934	53,748	-	-	-	-	-	-	16,500	10,798
Excess (deficiency) of revenues over (under) expenditures	(38,807)	5,728	1,090	-	200	10,854	32	125	2,053	(2,046)
Other financing sources (uses):										
Issuance of debt	-	-	-	-	-	-	-	-	-	-
Transfers in	50,000	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	50,000	-	-	-	-	-	-	-	-	-
Net change in fund balances	11,193	5,728	1,090	-	200	10,854	32	125	2,053	(2,046)
Fund balances, July 1	-	-	27,734	88	10,141	53,420	1,627	6,382	3,150	39,003
Fund balances, June 30	\$ 11,193	\$ 5,728	\$ 28,824	\$ 88	\$ 10,341	\$ 64,274	\$ 1,659	\$ 6,507	\$ 5,203	\$ 36,957

CITY OF SEBASTOPOL
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2007

	Capital Projects										Debt Service	
	CDBG	Undergrounding	SCWA Zone A Project	Laguna de Santa Rosa Projects	Wildlife Habitat Restoration	Flooding	CEC Loan and Solar	Federal Funds	Street Rehab	Equipment Replacement	Woodstone Assessment district	Total Nonmajor Governmental Funds
Revenues:												
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 446,897
Sales taxes	-	-	-	-	-	-	-	-	-	-	-	627,532
Intergovernmental	127,119	-	-	-	11,897	-	-	-	-	-	-	567,237
Charges for services	-	75,300	-	166	-	-	-	-	-	30,273	-	275,786
Interest	-	5,174	5	-	-	-	1,684	-	-	2,441	-	98,965
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	81,872
Total revenues	127,119	80,474	5	166	11,897	1,684	-	-	-	32,714	-	2,096,289
Expenditures:												
Current:												
General government	-	-	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-	214,986
Public Works	-	-	-	-	-	-	3,129	-	-	-	-	214,575
Community development	70,350	-	-	-	-	-	22,493	-	-	-	-	1,204,641
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	16,500
Capital outlay	-	-	-	-	-	-	-	-	2,476	-	-	367,679
Debt service	-	-	-	-	-	-	-	-	-	10,000	-	141,665
Principal	-	-	-	-	-	-	-	-	-	25,408	-	107,118
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	70,350	-	-	-	-	-	3,129	-	2,476	35,408	-	2,267,184
Excess (deficiency) of revenues over (under) expenditures	56,769	80,474	5	166	11,897	(1,445)	(22,493)	-	(2,476)	(2,694)	-	(168,895)
Other financing sources (uses):												
Issuance of debt	-	-	-	-	-	-	85,716	-	-	-	-	85,716
Transfers in	-	-	-	-	-	-	-	450	-	-	-	85,580
Transfers out	-	-	-	-	-	-	(450)	-	-	-	-	(85,580)
Total other financing sources (uses)	-	-	-	-	-	-	85,716	450	-	-	-	85,716
Net change in fund balances	56,769	80,474	5	166	11,897	84,271	(22,943)	450	(2,476)	(2,694)	(83,179)	(83,179)
Fund balances, July 1	-	94,058	129	8,466	-	(1,531)	(371)	(450)	-	62,432	-	1,439,917
Fund balances, June 30	\$ 56,769	\$ 174,532	\$ 134	\$ 8,632	\$ 10,366	\$ 84,271	\$ (23,314)	\$ -	\$ (2,476)	\$ 59,738	\$ -	\$ 1,556,738

